

Message Text

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44

ACTION EUR-25

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E. O. 11652: N/ A

TAGS: ETRD, IT

SUBJECT: ANDREOTTI VISIT TO WASHINGTON, ITALIAN EXPORT TAX REBATES

1. EMB RECOMMENDS THAT DURING VISIT TO WASHINGTON OF ITALIAN PRIMIN ANDREOTTI APRIL 17-18, US RAISE WITH HIS PARTY (E. G., GUAZZARONI) PROBLEM OF EXPORT TAX REBATES UNDER ITALIAN LAW 639 OF 1964.

2. BACKGROUND. EXCESSIVE TAX REBATES TO ITALIAN EXPORTERS OF PRODUCTS CONTAINING IRON OR STEEL UNDER LAW 639 REPRESENT THE MOST IMPORTANT CURRENT BILATERAL TRADE PROBLEM BETWEEN THE US AND ITALY. LAW 639 PROVIDES FOR REBATES OF CUSTOMS DUTIES AND CERTAIN OTHER INDIRECT TAXES (OTHER THAN VALUE ADDED TAX) ON EXPORTS, CALCULATED ON BASIS WEIGHT OF PRODUCT RATHER THAN ACTUAL TAXES PAID.

3. THE US DOES NOT OBJECT TO REBATES OF TAXES WHICH ARE CLEARLY BORNE BY THE PRODUCT BUT DOES FIND UNACCEPTABLE THAT A CONSIDERABLE PROTION OF THE LAW 639 REBATES RELATE TO TAXES ON THE GENERAL OPERATION OF THE FIRM. IT IS THE LATTER, PLUS THE ARBITRARY

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METHOD OF DETERMINING THE REBATES BASED ON PRODUCT WEIGHT, WHICH IN OUR VIEW CONSTITUTE AN EXPORT SUBSIDY.

4. SINCE 1967 THE US TREASURY HAS IMPOSED COUNTERVAILING DUTIES ON SIX OCCASIONS ON ITALIAN PRODUCTS BENEFITTING FROM LAW 639 REBATES. THE MOST RECENT CASE IN LATE MARCH 1973 INVOLVED REFRIGERATORS AND FREEZERS.

5. ON MARCH 29, 1973 GATT CONSULTATIONS BETWEEN THE US AND ITALY WERE HELD IN ROME CONCERNING LAW 639 TAX REBATES ON ITALIAN EXPORTS TO THIRD MARKETS. ITALIAN REPS DID NOT INDICATE THERE WAS ANY PROSPECT OF REDUCING THE REBATES TO THE US OR NON- EC MARKETS ALTHOUGH LEGISLATION HAS BEEN PROPOSED IN THE PARLIAMENT TO REDUCE FURTHER THE ALREADY LOWER REBATES TO COMMUNITY COUNTRIES.

6. THE EMB DOES NOT BELIEVE IT NECESSARY TO GO INTO TECHNICAL DETAILS WITH ANDREOTTI PARTY BUT WE THINK IT WOULD BE HELPFUL PERHAPS IN CONTEXT OF DISCUSSION RE PREPARATIONS FOR MULTILATERAL TRADE NEGOTIATIONS AND/ OR US- EC RELATIONS TO ENCOURAGE A CAREFUL REVIEW OF THE LAW 639 PROBLEM. INTENT WOULD BE: (A) TO SEE IF US CONCERNS CAN BE MET AND (B) TO ENSURE THAT ITALIAN SIDE UNDERSTANDS THAT US MOVE IN CALLING FOR GATT CONSULTATIONS FRANKLY MOTIVATED BY DESIRE TO DISPOSE OF OUTSTANDING TRADE PROBLEMS PRIOR TO SEPT TRADE NEGOTIATIONS. WE COULD ALSO EXPLAIN THAT WE MOTIVATED BY DESIRE TO TEST GATT PROVISIONS FOR TRADE DAMAGE FROM EXPORT SUBSIDIES IN THIRD COUNTRY MARKETS, AS WELL AS TO DEMONSTRATE SINCERE US BELIEF THAT ITALIAN LAW 639 PRACTICES ARE EX-AMPLE OF KIND OF RESIDUAL TRADE MEASURES THAT CONSTITUTE " UNFAIRNESS" TO US EXPORT INTERESTS. VOLPE

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